

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through April 24, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through April 24, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Scott County Sheriff for the period January 1, 2007 through April 24, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,645,924 for the districts for 2006 taxes, retaining commissions of \$89,929 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,521,474 to the districts for 2006 taxes. Taxes of \$27,183 are due to the districts from the Sheriff and refunds of \$270 are due to the Sheriff from the taxing districts.

Report Comment:

The Sheriff Should Seek Additional Training To Improve Financial Accountability

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Bobby Hammons, Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 24, 2007. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through April 24, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Seek Additional Training To Improve Financial Accountability

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 18, 2008

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through April 24, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 163,559	\$ 275,677	\$ 1,065,774	\$ 337,671
Tangible Personal Property	10,127	31,952	36,721	33,983
Franchise Taxes	99,638	158,022	483,215	
Additional Billings	521	897	3,345	1,104
Limestone, Sand and Mineral Reserves	494	833	3,219	1,020
Penalties	10,352	17,398	66,635	21,784
Gross Chargeable to Sheriff	<u>284,691</u>	<u>484,779</u>	<u>1,658,909</u>	<u>395,562</u>
<u>Credits</u>				
Exonerations	377	634	2,453	777
Discounts	22	36	140	45
Delinquents:				
Real Estate	4,122	6,948	26,861	8,510
Tangible Personal Property	1,198	1,827	4,234	4,040
Limestone, Sand and Mineral Reserves	494	833	3,219	1,020
Uncollected:				
Additional Billings	231	409	1,458	506
Franchise Taxes	16,070	24,307	67,246	
Total Credits	<u>22,514</u>	<u>34,994</u>	<u>105,611</u>	<u>14,898</u>
Taxes Collected	262,177	449,785	1,553,298	380,664
Less: Commissions *	<u>11,143</u>	<u>19,116</u>	<u>43,492</u>	<u>16,178</u>
Taxes Due	251,034	430,669	1,509,806	364,486
Taxes Paid	247,189	424,142	1,486,906	363,237
Refunds (Current and Prior Year)	<u>662</u>	<u>1,137</u>	<u>4,290</u>	<u>1,519</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 3,183</u>	<u>\$ 5,390</u>	<u>\$ 18,610</u>	<u>\$ (270)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period January 1, 2007 Through April 24, 2007
(Continued)

* Commissions:

4.25% on	\$	1,092,626
2.8% on	\$	1,553,298

** Special Taxing Districts:

Library District	\$	2,970
Health District		1,661
Extension District		<u>759</u>
Due Districts	\$	<u><u>5,390</u></u>

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 24, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 24, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through April 24, 2007.

Note 4. Interest Income

The Scott County Sheriff earned \$10,274 as interest income on 2006 taxes. As of January 18, 2008, the Sheriff owed \$471 in interest to the school district and \$1,052 in interest is due from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$98,476 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of January 18, 2008, the Sheriff owed \$7,455 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$11,700 of advertising costs and \$5,120 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office. As of January 18, 2008, the Sheriff owed \$1,000 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 24, 2007, and have issued our report thereon dated January 18, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff Should Seek Additional Training To Improve Financial Accountability



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement – 2006 Taxes for the period January 1, 2007 through April 24, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Scott County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Scott County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 18, 2008

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2007 Through April 24, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff Should Seek Additional Training To Improve Financial Accountability

As a result of procedures conducted during the audit, auditors determined that certain elements of financial accountability could be improved with additional training. Tests conducted over receipts indicate problems with regard to daily, monthly, and overall reconciliation procedures.

We tested all tax deposits made by the Sheriff's office during the period January 1, 2007 through April 24, 2007 and discovered significant variances between cash and check amounts indicated on the Sheriff's daily collection reports and the amounts deposited. Upon inquiry, the Sheriff's bookkeeper explained the variances as being errors in recording tax bill payments as they are received. The Sheriff's software system used for recording, processing and reporting tax payments reflects all tax bills as being paid in cash, and on numerous occasions during the audit period these payments were made in the form of checks and not reflected as such. The failure to properly record tax payments in the form of cash or check can create significant difficulties in attempting to reconcile daily receipts to amounts subsequently deposited, and in many instances gives the appearance that "cash" is not being deposited with daily receipts. We recommend the Sheriff and his staff obtain additional training in the daily reconciliation of receipts and the proper use of the software system employed for tax collections.

Our audit procedures include recalculating all charges, credits, and payments reflected on the Sheriff's Tax Settlements. The Sheriff is responsible for providing supporting documentation for these amounts. During the audit, the Sheriff's bookkeeper encountered numerous difficulties providing supporting documentation for the amounts included on the settlements. The difficulties involve various reports produced by the software system and the subsequent reconciliation of the reports to the Sheriff's Settlements. We recommend the Sheriff and his staff obtain additional training with regard to producing reports from the software system and the subsequent agreement of the reports to the tax settlements.

Our audit procedures also include a review of all franchise taxes billed and collected by the Sheriff's office during the audit period. The review of franchise bills revealed a number of tax bills sent to taxpayers that were not properly computed based on the type of property and appropriate tax rates for the bill. The Sheriff is responsible for billing, collecting, and disbursing franchise taxes, and as a part of this process franchise bills received by the Sheriff should be recomputed prior to mailing to the corporations. We recommend the Sheriff and his staff obtain training with regard to the proper computation of franchise bills.

Sheriff's Response: We will correct this problem.

